

**SOUTH BUCKS DISTRICT COUNCIL**

**TREASURY MANAGEMENT POLICY & PROCEDURES**

**OCTOBER 2011**

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SOUTH BUCKS DISTRICT COUNCIL

OVERALL POLICY STATEMENT FOR TREASURY MANAGEMENT

1. The Council adopted the CIPFA code of practice on Treasury Management in June 2002. In the light of the Icelandic situation in 2008 the CIPFA amended the code in 2009 which was adopted by Members in February 2010.
2. The revised Code includes an amended version of the treasury management policy statement (TMPS) incorporating just three clauses including a revised definition of treasury management activities. The clauses and definition are set out below:

**Treasury Management Policy Statement.**

- This organisation defines its treasury management activities as “The management of the authority’s investment and cash flows, its banking, money market and capital market transactions :the effective control of risks associated with those activities; and the pursuit of optimum performance consistent with those risks”.
- This organisation regards the successful identification, monitoring and control risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation.
- This organisation acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management and to employing suitable comprehensive performance techniques, within the context of effective risk management.

**Adoption of the revised CIPFA Treasury Management Code of Practice 2009**

2. The CIPFA Code recommends that all public service organisations adopt as part of their standing orders, financial regulations, or other formal policy documents appropriate to their circumstances, the following clauses.
  1. This organisation will create and maintain, as the cornerstone for effective treasury management:
    - A treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities.
    - Suitable treasury management practices (TMPs), setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.
  2. This Council will receive reports on its treasury management policies, practices and activities, including, as a minimum, an annual strategy and plan in advance of the year, a mid year review and an annual report after its close, in the form prescribed in the TMPs.
  3. This organisation delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to the Resources

Portfolio Holder, and for the execution and administration of treasury management decisions to the Director of Resources, who will act in accordance with organisation's policy statement and TMPs and, as a CIPFA member, CIPFA's Standard of Professional Practice on Treasury Management.

### **Adoption of the Code in practice**

The revised Code is built largely on what was recommended practise in the previous version, but does place grater or new emphasis in certain key areas. The main points in the new Code are as follows:

- a) All councils must formally adopt the revised Code and four clauses.
- b) The strategy report will affirm that the effective management and control of risk are prime objectives of the Council's treasury management activities. This is consistent with the approach always adopted by this Council.
- c) The Council's appetite for risk must be clearly identified within the strategy report and will affirm that priority is given to security of capital and liquidity when investing funds and explain how that will be carried out.
- d) Responsibility for risk management and control lies within the organisation and cannot be delegated to any outside organisation. This is something the Council has always been clear about, in that whilst it uses advisers and external sources of information, that it is the officers and members of the authority who are accountable for policy and decisions.
- e) Credit ratings should be used as a starting point when considering risk. Use should also be made of market data and information, the quality financial press, information on government support for banks and credit ratings of that government support.
- f) Councils need a sound diversification policy with high quality counterparties and should consider setting country, sector and group limits.
- g) Borrowing in advance of need is only to be permissible when there is a clear business case for doing so and only for the current capital programme. As a debt free authority this is not an issue that arises for the Council.
- h) The main annual treasury management reports must be approved by full council.
- i) There needs to be, at a minimum, a mid year review of treasury management strategy and performance. This is intended to highlight any areas of concern that have arisen since the original strategy was approved. For South Bucks this requirement is met by the regular reports to the Resources Portfolio Holder.
- j) Each council must delegate the role of security of treasury management strategy and policies to a specific named body. For South Bucks DC this is carried out by the Resources PAG.
- k) Treasury Management performance and policy setting should be subject to prior scrutiny. This is achieved via the regular discussions on Treasury Management at the Resources PAG.
- l) Members should be provided with access to relevant training.

- m) Those charged with governance are also personally responsible for ensuring that they have the necessary skills and training.
- n) Responsibility for these activities must be clearly defined within the organisation.
- o) Officers involved in treasury management must be explicitly required to follow treasury management policies and procedures when making investment and borrowing decisions on behalf of the Council.
- p) The Council has adopted the following reporting arrangements in accordance with the requirements of the revised code:

Area of Responsibility	Reporting Arrangements	Frequency
Treasury Management Policy (revised)	Resources PAG /Cabinet/Council	Initial adoption 2010
Treasury Management Strategy Annual Investment Strategy MRP policy	Resources PAG /Cabinet/Council	Annually before the start of the year
Treasury Management Strategy Annual Investment Strategy MRP policy - mid year report	Resources PAG /Cabinet/Council	Appropriate quarterly report to RPAG
Treasury Management Strategy Annual Investment Strategy MRP policy - updates or revisions at other times	Resources PAG /Cabinet/Council	As appropriate
Annual Treasury Outturn Report	Resources PAG /Cabinet/Council	Annually by 30 September after the end of the year
Monitoring Reports	Resources PAG /Cabinet/Council	Quarterly
Treasury Management Practices	Resources PAG /Cabinet/Council	Annually
Investment Portfolio Detail	Resources Portfolio Holder	Monthly
Scrutiny of treasury management strategies & performance	Resources PAG	Ongoing but with particular focus when considering annual Strategy

SOUTH BUCKS DISTRICT COUNCIL

TREASURY MANAGEMENT POLICY & PROCEDURES - IN-HOUSE FUNDS

**1. Introduction**

The Council has adopted CIPFA's "Code of Practice on Treasury Management in the Public Services". One of the requirements of this code is that Treasury Systems should be fully documented so that all who are involved are clear on the procedures and on any limits that apply to their activities.

The Council is debt free and therefore is in the position that it is unlikely to have to borrow money in the short term. This Treasury Management Policy and Procedures Document is therefore restricted to lending surplus funds not borrowing.

This document, except where stated, relates to the placing of surplus cash by officers of the Council.

**2. Delegation**

2.1 All investment and borrowing matters are delegated to the Resources Portfolio Holder.

2.2 The Director of Resources has delegated authority to deal with the investment of surplus cash in hand.

2.3 The Director of Resources delegates the regular monitoring of investments to the Principal Accountant.

2.4 The day-to-day transactions are carried out by the Finance Officer within the terms of reference set by the Council.

2.5 The Finance Officer will establish the balances held in the Council's bank account each morning via an electronic link to the bank and ascertain what money is available for investment.

2.6 When considering the period for investment the following points shall be taken into consideration:

- Future movements in cash flow
- Precept Dates
- Rates of interest being offered
- Anticipated future trends in interest rates

Where a significant investment decision has been made written justification of the rationale behind the decision will be kept.

2.7 In order to meet any unexpected requirements for cash, part of the Council's funds must be kept on call. Generally any deposits made for a fixed period must be repayable by the next precept date. Placing of sums in excess of this period must be approved by the Principal Accountant.

2.8 In the absence of the Finance Officer the Principal Accountant is responsible for day-to-day decisions, in the absence of either of the Principal Accountants decisions fall to the Head of Finance & IT

### **3. Dealing Procedures**

- 3.1 All staff involved in Treasury management must be aware of the principles set down in “Non investment product code” (NIPS code) which has replaced the London Code of Practice. To avoid over-reliance on a single broker and enhance objectivity in dealings it is good practice to spread deals amongst a range of brokers and equivalent.
- 3.2 The principle behind the management of the Council's cash balances is to meet all liabilities without resort to unnecessary borrowing. This means having regard to payment dates, particularly precept dates, when placing monies longer term.
- 3.3 The aim in managing the Council's cash balances is to ensure the availability of sufficient funds to meet the liquidity requirements of the Council. This is achieved by placing surplus cash at call or for longer periods. These decisions are made having regard to expected cash flows and the due dates of large payments e.g. precept payments.
- 3.4 For fixed and callable investments the approval of the Director of Resources must be obtained in writing before the investment is made. Decisions on investing in callable and fixed deposits are taken by Officers in the light of advice from the Council's treasury consultants and brokers acting in the local authority money market, combined with general intelligence available from market briefings made available to the authority.

### **4. Documentation**

- 4.1 All deals must be documented at the time of dealing, within the money diary, within 24 hours of the deal being made.
- 4.2 In addition a spreadsheet must be maintained to show the amount, period, counterparty and interest rate. When any written confirmation is received it is essential that this is checked against the spreadsheet immediately with any discrepancies investigated without delay.
- 4.3 The spreadsheet should be tied up and balanced with the interest received shown in the general ledger on a monthly basis. A monthly summarised statement of reconciliation should be produced by the Principal Accountant.
- 4.4 Where significant Money Market investments are made, evidence will be kept to demonstrate that the best rate has been obtained for the Council. This could take the form of quotes from two different brokers or notes of external investment advice giving details of the current market rates and products.  
This evidence will also form the written justification of why the investment decision was made.

### **5. Transmission Procedures**

Where funds need to be transferred to the counterparty the following procedure will need to be undertaken:

- i. Where payments made to counterparties can be transmitted using electronic banking the Principal Accountant or another authorised officer must approve and release the transaction.

- ii. In cases where CHAPS payments are made via the bank a letter of confirmation signed in accordance with mandate instructions must be faxed to the bank by no later than 2.00 p.m. on the day of transfer.
- iii. Deposits made with the Council's bank through the special interest bearing account will be made via an electronic transfer between the Council's bank accounts.

## 6. Limits on Decision Making

The following limits must be strictly adhered to and under no circumstances may they be exceeded:

Director of Resources	All matters delegated by the Council.
Head of Finance Principal Accountant	All matters delegated by the Director of Resources as set out in these procedure notes
Principal Accountant Finance Officer	Investment of all surplus balances within limits applicable to counter-parties, subject to the limitations set out in these procedure notes

## 7. Limits Applicable to Counterparties

- 7.1 Investment of Council funds has one overriding principle - SECURITY. With this in mind the Council have adopted the following matrix for funds may only be placed with the following institutions:

	Credit Rating	Maximum Amount	Comment
UK Institutions	AAA	£10 million	The durations of the investment would be informed by the detailed credit rating information
	AA+ or AA-	£7 million*	
	A to A+	£1 million	
Non UK Institutions	AA or better	£2 million	As above but also sovereignty rating must be AAA
Corporate Bonds	AA or better	£2 million	Investment decision will be based on balancing yield against duration

\* Members have approved a limit of £10 million for RBS whilst the bank remains substantially within State Ownership.

As part of the Council's Treasury Management Strategy 2011/12 Members agreed to add the Co-operative Bank (A-) with a limit of £1 million on the basis of the competitive rates it currently offers.

The maximum limits for institutions do not apply to the investment of short term cash.

All fixed investment decisions will require final authorisation by the Director of Resources.

Deals out of a forward date are permitted provided that they are agreed by the Director of Resources.

## **8. Reporting Lines and Frequency**

- 8.1 On a monthly basis a summary statement of reconciliation will be produced by the Principal Accountant.
- 8.2 The Principal Accountant should produce on a monthly basis a statement comparing interest returns with the budget and a forecast for the year based upon the latest information available.
- 8.3 Each month the Principal Accountant will produce a spreadsheet detailing the Council's investment portfolio, including market value and credit ratings, and email it to the Resources Portfolio Holder and the Director of Resources.
- 8.4 On a quarterly basis the Principal Accountant will produce a report on Investment Performance for the Director of Resources to present to the Resources Portfolio Holder and his Policy Advisory Group (Pag).
- 8.5 An annual Treasury Management Strategy Report is to be presented by the Director of Resources to the Resources Portfolio Holder when the annual budget for the following year is considered.
- 8.6 An annual Investment Strategy for the year ahead is to be presented to the Resources Portfolio Holder prior to the commencement of that year.
- 8.7 Annually after the closure of the financial year the Director of Resources is to report to the Resources Portfolio Holder on matters regarding the previous year's activities.

## **9. Cash Flow**

- 9.1 A detailed estimated and actual cash flow spreadsheet should be maintained which updates the estimated cash flow for the year to take account of actual cash movements as the year progresses. A copy of the spreadsheet should be available for audit purposes.

## **10. Review of Treasury Systems Document**

- 10.1 While it is not expected that the actual procedures in this document will need to be revised very often, such aspects as limits, risk spreading and possibly data recording may require amendment. The Director of Resources is authorised to approve such amendments.
- 10.2 In some instances, such as where limits for counterparties need to be changed during the year, periodic supplements to this document may have to be issued. However, there should be a full review by the Director of Resources of the contents of the document annually and any amendments reported to the Resources Portfolio Holder.



**SOUTH BUCKS DISTRICT COUNCIL**

**INVESTMENT POLICY & PROCEDURES - TMP 9 MONEY LAUNDERING**

**9.1 PROCEDURES FOR ESTABLISHING IDENTITY/AUTHENTICITY OF LENDERS.**

The Council does not accept loans from individuals.

The Council is debt free but may from time to time borrow for short terms cash flow purposes. Any short term borrowing will be restricted to authorised institutions under the Banking Act 1987. The names of these institutions appear on a register maintained by the Financial Services Authority (FSA) and can be accessed on their website on [www.fsa.gov.uk](http://www.fsa.gov.uk). Short-term borrowing is restricted to those institutions appearing on the Council's list of counterparties.

**9.2 METHODOLOGIES FOR IDENTIFYING DEPOSIT TAKERS.**

In the course of its Treasury activities the Council will only lend monies to or invest with those counterparties that are on its approved lending list. These will include authorised deposit takers under the Banking Act 1987: (the names of these institutions appeared on the Bank of England quarterly list of authorised institutions until 1.12.2001 when the Financial Services Authority (FSA) took over the responsibility for maintaining a register of authorised institutions. This register can be accessed through their website on [www.fsa.gov.uk](http://www.fsa.gov.uk))

- When a new investment is made with an authorised deposit taker or other institution appearing on the Council's approved counterparty list the bank details (sort code, account number, name etc) are checked with the APACS book and added as a template to the Council's electronic payments system (Nat West Bankline - Payments Manager).
- If the dealer finds that the information received from a broker or institution differs when checking with the APACS book he will contact the broker or institution and resolve the query.
- The authorised signatory electronically approving the payment on Payments Manager will check the bank details on the template with the information received from the broker/institution as part of the authorisation process before they release the payment into the banking system. Any discrepancy will be queried with the dealer.
- Any queries on the name of an institution will be checked to the APACS book and to the Council's source of credit ratings Fitch IBCA supplied by Sector Treasury Services.
- All transactions will be carried out electronically via Nat West Bankline Payments Manager.

**9.3 PROCEEDS OF CRIME ACT 2003 (POCA)**

The current responsibilities of local authorities in respect of the POCA are detailed below:

The proceeds of Crime Act 2003 imposes an obligation on any person or other body that undertakes a regulated activity as defined by the Act to report any incident that leads them to suspect that an individual or other body is making transactions with the proceeds of any criminal

activity. This is an extension of the obligations previously imposed principally on financial services organisations and employees under money laundering legislation. The money laundering legislation, as reinforced by the FSA guidance, made it clear that an organisation had to nominate a money laundering reporting officer, MLRO, through whom suspicious transactions had to be reported to the National Criminal Investigation Service (NCIS), being the police body charged with dealing with these matters.

The question therefore arises as to whether organisations now caught under the provisions of the POCA have to also nominate a MLRO. There is nothing that states that an MLRO has to be nominated and indeed, a number of organisations that are caught by POCA would not have a direct regulator to notify. However, it is equally clear that such organisations must have a process in place whereby employees can alert management of activities that may fall under POCA and that process must make it clear to whom an internal report has to be made. Therefore, whether called an MLRO or not, under their internal processes organisations need to appoint a senior officer (Finance Director, Treasurer, Head of Legal) to whom suspicions must be reported and who is responsible for deciding whether to pass the report to NCIS at the address given below:

NCIS,  
PO BOX 8000,  
LONDON.  
SE11 5EN.

[www.ncis.co.uk](http://www.ncis.co.uk)

The Council has appointed Jim Burness, Director of Resources, to be the responsible officer to whom any suspicions that transactions involving the Council may include a party who is involved in criminal activity. Suspicious transactions will be investigated as far as the Council is in a position to do so or it is appropriate for the Council to do so, if any doubts remain, these transactions will be reported to the National Criminal Investigation Service.

The Director of Resources is conversant with the requirements of the POCA 2003 and will ensure that Business Unit Heads will pick up any training requirements for relevant staff through the appraisal process.